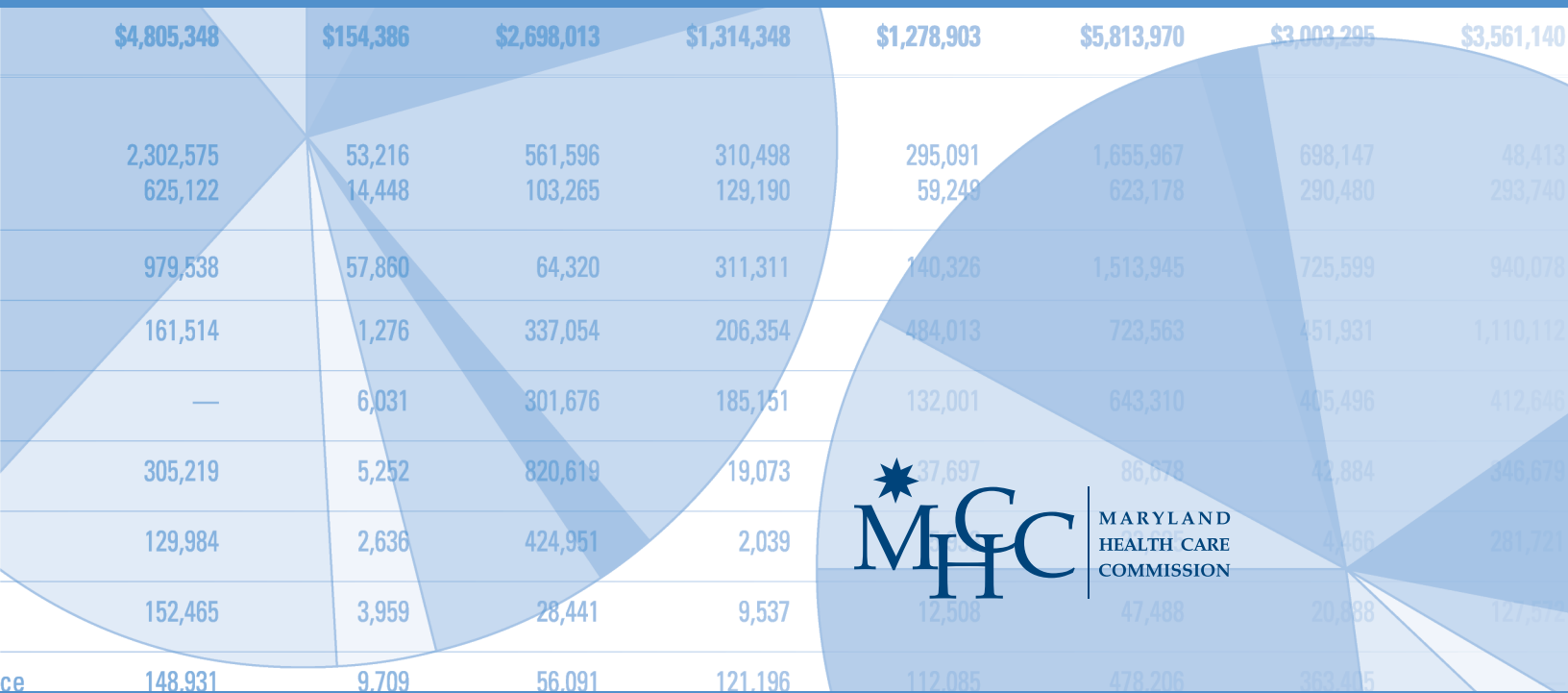


State Health Care Expenditures

EXPERIENCE FROM 2004



Released January 2006 · Stephen J. Salamon, Chairman

LETTER FROM THE CHAIRMAN



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This report continues the Maryland Health Care Commission's effort to report annually on the state's expenditures for health care services in accordance with Maryland law. The January release of this report is timed to provide the Executive and Legislative branches of the Maryland General Assembly with the opportunity to consider implications of past policies early in the 2006 legislative session.

This report shows that the rate of growth in health care spending for Maryland residents continued to slow in 2004. The lower growth rate continues the slowing trend first identified two years ago. Maryland health care spending grew to \$28.8 billion, up by about \$1.9 billion, or 7 percent from 2003. The rate of growth in health care spending continues to surpass growth in broader economic measures, although the gap between growth in health care spending and growth in personal income was the smallest since the 1990s.

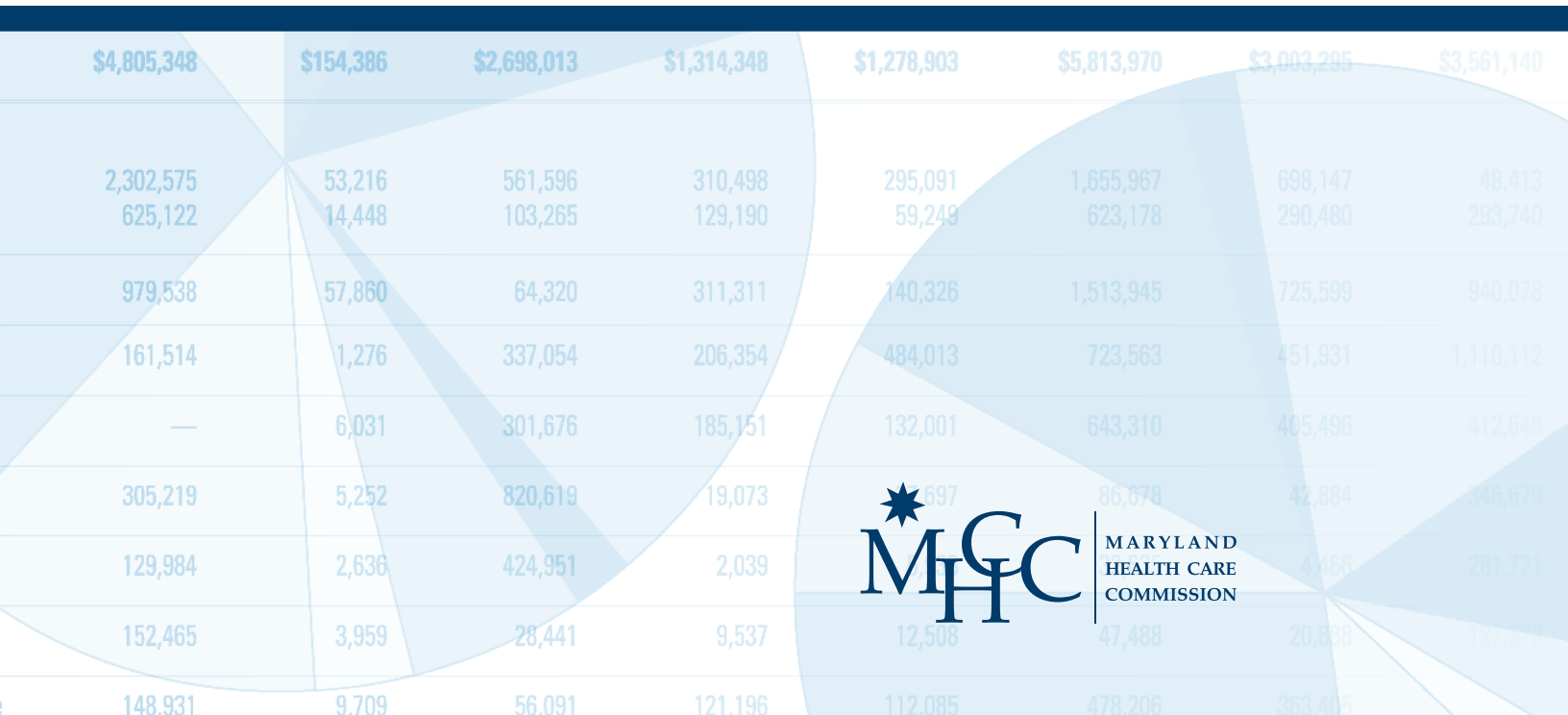
Growth in health care spending has slowed, but consumers and purchasers have yet to see much relief from rising health care premiums. Recent premium increases have made the affordability of health insurance a challenge for more Maryland families. One of the primary missions of the Maryland Health Care Commission is to make health care coverage more affordable. The results presented in this report when coupled with MHCC's recent report that found over 740,000 Marylanders lacked insurance coverage indicates that policymakers must work harder to ensure that Maryland residents have access to quality affordable health care. Upward pressure on premiums and growing numbers of uninsured are nationwide problems; however in Maryland we have taken pride in developing our own solutions to complex health care issues. I am confident that by working together we can develop innovative solutions to providing affordable health care in the state.

The report would not have been possible without the cooperation of other state agencies, the federal government and private organizations that provided information. The Commission is grateful to these organizations for working closely with Commission staff to complete this study in time for the 2006 Session of the Maryland General Assembly.

Stephen J. Salamon
Chairman

State Health Care Expenditures

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In constructing spending accounts of this complexity, the MHCC relied on estimates of private insurance expenditures supplied by Calvert Gorman of the Maryland Insurance Administration. Diane Bell and Jake Pyzik, Maryland Department of Budget Management, provided information on health insurance expenditure patterns for state employees. As in previous years, Maribel Franey and Cheryl Sample at the Centers for Medicare & Medicaid Services (CMS) assisted MHCC with the data use agreements that are necessary before Medicare information can be released. Dinah Horton prepared the extracts of CMS claims data needed to conduct the analysis. Leroy McKnight in the federal government's Office of Personnel Management supplied information on federal employees' insurance coverage. Richard D. Barnett (TRICARE Management Activity) provided spending information on CHAMPUS/TRICARE programs, and Pat Kane at the Department of Veterans Affairs provided similar spending data on VA programs. Anne Martin of the Office of the Actuary at CMS provided estimates of expenditures for nontraditional Medicare programs. Dr. Patrick Redmon of the Health Services Cost Review Commission (HSCRC) provided estimates of hospital spending.

This year the MHCC further refined the methodology for allocating private sector spending across services categories. Information from the Agency for Healthcare

Research and Quality's (AHRQ) Medical Expenditure Panel Survey (MEPS) was used extensively in this effort. Karen Beauregard, John Sommers, and Ray Kuntz at AHRQ provided advice on the use of the MEPS data files. We look forward to even greater collaboration in the future.

The development of the state health care expenditure analysis would not have been possible without the significant contributions of our consultants. This project was under the direction of Dr. Deborah Chollet, Mathematica Policy Research (MPR), Thomas Bell of Social & Scientific Systems, Inc. (SSS), Dr. Dean Farley of United Healthcare, and Sophie Nemirovsky (SSS). Dr. Eric Schone of MPR developed the estimation algorithms for private sector spending using the MEPS data. Thomas Bell was assisted by Adrian Ndikumwami, Cynthia Saiontz-Martinez, Shelley Mullins, Sane Maphungphong, John May, and Po-Lun Chou at SSS. Priscilla Thompson and her staff of Solutions Technology, Incorporated, provided data collection and processing support. Beverly Valdez of SSS, with the assistance of Lauren Prelewicz and Hadiya Williams, provided the graphic design services for the report.

SUMMARY

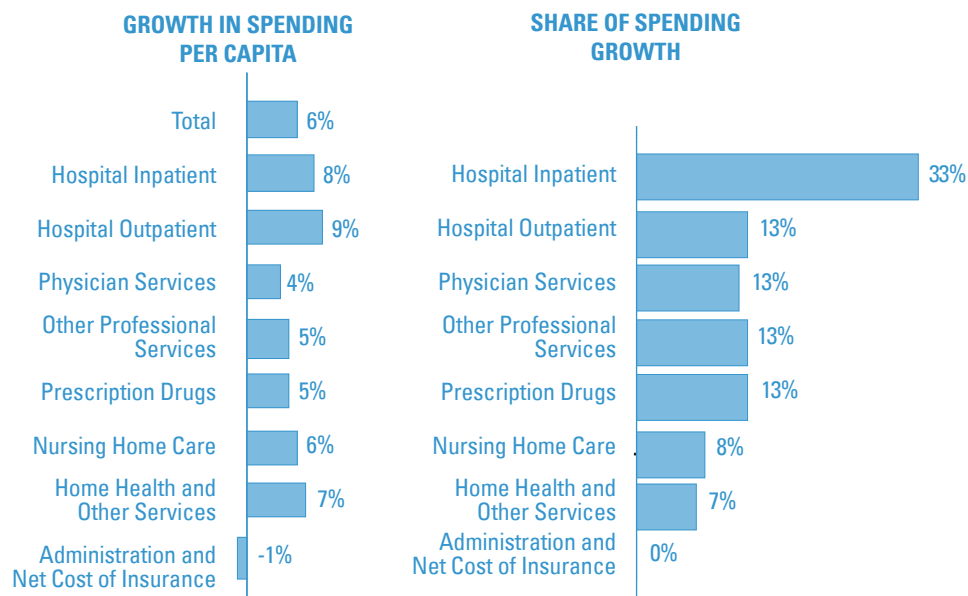
This report, *State Health Care Expenditures: Experience from 2004*, provides information on total expenditures for or by Maryland residents, by public and private sources, for most types of personal health care services. Total health care spending among Maryland residents totaled \$28.8 billion, up from \$26.9 billion in 2003. Overall health care spending grew by \$1.9 billion, or 7 percent, from 2003 to 2004. The 7 percent rate of growth in total spending in 2004 is about 2 percentage points lower than the growth rate MHCC reported for 2003, and continues a slowing trend in health care spending growth. The growth in personal income nearly kept pace with the rate of increase in health care spending. Health care spending accounted for about 13 percent of total personal income, unchanged from 2003.¹

Hospital and professional services (including physician and nonphysician services) each account for about one-third of total health care spending. Expenditures on hospital services totaled \$9.6 billion in 2004. Spending on inpatient services accounted for 24 percent of total health care expenditures and about three-quarters of all hospital spending. Professional health care services totaled \$8.9 billion, of which \$4.9 billion was spent for physician care and \$4.1 billion for other professional services. Other professional services (which include care provided by nonphysician professionals, clinics, ambulatory surgery centers, and imaging centers) accounted for 14 percent of total health care spending, compared to 17 percent for physician services. Prescription drug spending was \$4.0 billion, or about 14 percent of total spending in 2004. Nursing home care and home health care totaled \$2.2 billion and nearly \$1.1 billion, respectively, in 2004—together accounting for 12 percent of health care spending in the state. Public and private payers' expenses associated with plan administration and the net cost of private health insurance accounted for about \$2.2 billion in health care spending, or about 8 percent of all health care spending.

Per capita spending, which measures spending change after population increases have been removed, grew at a rate of just under 6 percent, and slightly below the 7 percent growth rate for per capita spending in the United States. Per capita spending for all Maryland residents stood at \$5,179, compared to \$5,374 for the United States.

¹ Personal income grew at nearly a 7 percent pace in 2004. Maryland personal income increased from \$206.5 billion in 2003 to \$ 220.3 billion in 2004. <http://www.bea.gov/region/spi/drill.cfm>

FIGURE ES-1
Changes in Health Care
Expenditures, 2003–2004



Specific health service sectors showed variation in rates of growth from 2003 to 2004 as shown Figure ES-1. Per capita inpatient hospital spending increased by 8 percent and outpatient spending grew by 9 percent. Spending on inpatient hospital services was the principal driver of the overall spending increase in 2004, accounting for one-third of the total spending increase. Hospital spending increases were driven in part by about a 6 percent increase in charge per case and a 2 percent increase in the number of admissions, with admission increases especially pronounced in the Medicare population. Hospitals saw a 5.3 percent increase in HSCRC rates in 2004 to cover increases in the prices of inputs for hospital care, including wage growth and technology acquisition. Outpatient spending growth was due to increases in utilization, particularly among Medicare and Medicaid patients. Hospitals also experienced a 4.3 percent increase in HSCRC-approved outpatient rates in FY 2004. Almost half (45 percent) of the \$1.9 billion increase in total health care spending was attributed to increased use of hospital services.

Spending on physician services grew by about 4 percent per capita. Leading the way was an 8 percent growth in per capita spending for Medicare beneficiaries in 2004. The Centers for Medicare & Medicaid Services (CMS) update for physician fees was just 1.5 percent in 2004, indicating that volume and intensity of service were the primary drivers of this spending growth. Per capita spending for physician services by Medicaid and through private insurance coverage was slower at 5 percent and 6 percent, respectively. Physician spending under Medicaid is expected to increase significantly beginning in July 2005, as reimbursement levels are raised for obstetricians, orthopedists, neurosurgeons, and emergency medicine physicians, with rate increases for other specialties tentatively scheduled to occur by 2009. Overall, physician input prices increased by about 3 percent in 2004, as measured by the Medicare Economic Index.

Growth of expenditures for prescription drugs continued to slow in 2004. Slower growth may reflect increased use of generic drugs, which are not only priced lower than brand name equivalents but also had their prices constrained by intense competition among generic drug manufacturers. The underlying price trend for prescription drugs as measured by the Consumer Price Index (CPI) slowed to 3.1 percent nationwide in 2004.² Consumers and payers also benefited as Claritin and Prilosec moved to over-the-counter (OTC) status and patents expired on a number of heavily prescribed branded drugs. Other factors that may have contributed to slower drug spending include: the removal from the market of Vioxx and Bextra, two extremely popular COX-2 nonsteroidal antiinflammatory drugs (NSAIDs); FDA's black label warning on use of psychotropic drugs in adolescents; and increasing concern about various hormone therapies for postmenopausal women. Recent purchaser-driven initiatives such as multitiered formularies and increased use of consumer cost-sharing may also have dampened consumer demand. However, 2004 and 2005 saw a dramatic increase in the number of new molecular entities approved by the FDA, including several in the "blockbuster" category for treatment of insomnia, weight loss, and diabetes. Several of the new diabetes drugs represent 1st-in-class treatments, certain to increase prescription drug spending. Offsetting the introductions of these new drugs are patent expirations during 2005 and 2006 for several "blockbuster" drugs, including Pravachol, Zoloft, Ambien, Zofran, Provigil, and Zocor.

Growth rates for smaller components of health care spending were mixed. Expenditures for nursing home and home health care grew at 6 percent and 7 percent per capita, approximately the same rate as total spending in 2004. Almost two-thirds of nursing home care and over 70 percent of home health care are financed by government payers. The cost of administration and the net cost of private insurance (i.e., funds that private payers set aside to meet reserve requirements and for shareholders' returns on equity) declined significantly in 2004 on a per capita basis. The decline in administration and the net cost of insurance may signal a significant change in the trend for administrative expenses, which had grown rapidly in the 2002-2003 period. The slowed growth may mean that the wave of acquisitions that occurred in private insurance during 2001-2003 may be yielding some of the promised efficiencies, although it is unclear if consumers and purchasers will reap any benefits via reductions in the rate of growth in insurance premiums.

Health care spending in Maryland continues to be about equally financed by public and private payers. Health care spending in the public sector, including Medicare, Medicaid, and other government programs such as veterans' benefits, funded 42 percent of total health care spending (\$12.1 billion). Medicare, the largest payer in the state, funded 20 percent of total spending, but funded 40 percent of inpatient hospital care and nearly 30 percent of outpatient hospital care. Medicare spending

² *Producer Price Index (PPI) for pharmaceuticals remained stable at 5%.*

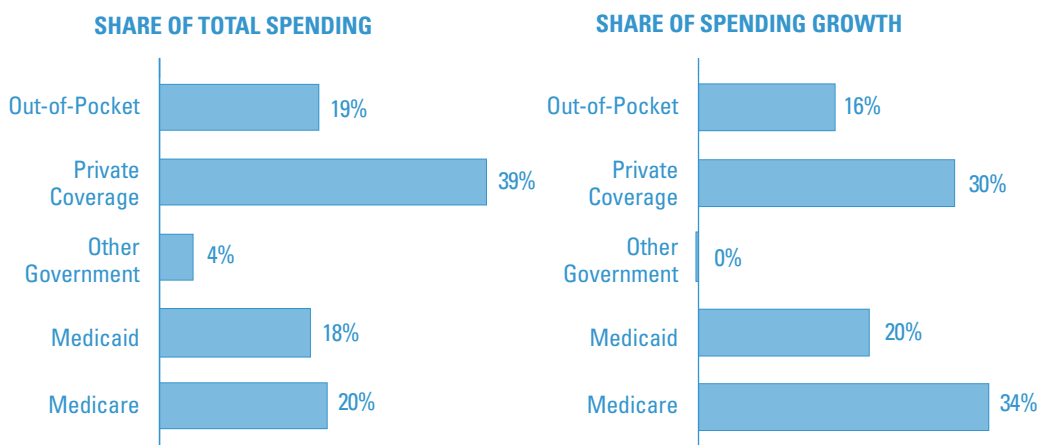
grew by over 12 percent, fastest of all payers in the state and faster in Maryland than for Medicare nationwide.³ As shown in Figure ES-2, the Medicare program accounted for over one-third of increased spending in the state. Medicare spending for inpatient hospital services accounted for 52 percent of Medicare's overall spending growth.

Medicaid spending accounted for 18 percent of total state spending and about 20 percent of the total growth in spending. The program funds 46 percent of nursing home care and almost 60 percent of home health services. The dominance of the program in these services makes the nursing home and home health sectors highly sensitive to state policy changes regarding funding and quality. Medicaid spending increased by 8 percent in 2004, a smaller rate of growth than was observed in 2003 when Medicaid spending grew faster than spending by other payers. Some of the spending growth in Medicaid was attributable to enrollment increases; on a per capita basis Medicaid grew by 5 percent. Both the total and per capita growth rates for Medicaid were slightly above the national averages for Medicaid.

All private third-party coverage, including commercial and nonprofit insurers, health maintenance organizations (HMOs), and self-insured employer plans, accounted for 39 percent of total health care spending (\$11.3 billion) and about 30 percent of the growth (\$553 million). Private insurers financed 52 percent of physician care services, 49 percent of hospital outpatient care, and 42 percent of prescription drugs in 2004. Spending for private coverage grew by 5 percent from 2003 to 2004. Inpatient and outpatient hospital services accounted for 55 percent of the total spending increase in private payer spending.

Private insurance spending per insured resident in Maryland was substantially less than the national average—\$2,754 compared to \$3,376 nationally. The rate of growth in private insurance expenditures per capita in Maryland was about equal to the national growth rate for private payers in 2004 (8 percent).

FIGURE ES-2
Share of Health Care
Expenditures
by Payer, 2004



³ Medicare spending increased by 10 percent per capita.

Out-of-pocket spending (including coinsurance, copayments, deductibles, and full direct payments) grew by 6 percent per capita in 2004, slightly faster than the rate of growth in private insurance spending. Greater spending for physician services, other professional services, and prescription drugs accounted for 70 percent of the growth in out-of-pocket spending. Prescription drug spending and other professional services each accounted for nearly 30 percent of the growth in out-of-pocket spending. These shares conform with the usual pattern in out-of-pocket spending and with recent insurer cost-containment strategies to raise cost-sharing for these categories of service.

In 2003, out-of-pocket spending per capita in Maryland was greater than the national average (\$944 versus \$671) and grew slightly faster (7 percent versus 6 percent). Out-of-pocket spending in 2004 grew at the same rate as the nation (6 percent). Out-of-pocket spending per capita continues to be much higher in Maryland than the national average (\$965 versus \$729), suggesting Marylanders with higher discretionary incomes spend more for health care compared to their counterparts across the country.

Enrollment in HMOs as a percent of all insured was unchanged from 2004 at 32 percent after growing by 5 percent in 2003. HMOs funded about 26 percent of total health spending in 2004, up marginally from 2003. Recent premium increases suggest that purchasers would look for cost-saving alternatives, and the availability of various high-deductible products may represent alternatives to HMOs for some purchasers. The absence of high-deductible HMOs in most market segments may have meant that purchasers saw nothing new in HMO offerings in 2004. High-deductible HMO products began to take root in the Maryland market in 2005. Medicare Advantage plans showed a 10 percent growth, but in real terms that increase represented only about 2,000 new enrollees, and the overall percent of Medicare enrollees insured by managed care plans hardly moved at all from 3 percent to 4 percent. The introduction of the Medicare Part D drug plan in January 2006 will allow Medicare Advantage plans to offer drug benefits for no additional premium; it is too early to judge the popularity of these products. Medicaid was virtually unchanged from 2003.

The rapid growth of health care costs relative to the rest of the Maryland economy slowed somewhat in 2004. However, the cost pressures driving the Maryland health care system—particularly rapid advances in medical technology and its widespread diffusion—are unlikely to slow in the near future. Even at recent past rates of growth, total health care spending in Maryland will increase significantly. With average expenditures rising at 11 to 12 percent per year, per capita expenditures are projected to rise 29 percent from 2004 to 2006—largely related to fast growth in costs for hospital care and prescription drugs. Of particular concern is the rapid growth in hospital spending when viewed in conjunction with the major hospital building program now underway in Maryland. A high degree of capital spending by hospitals,

emphasizing expansion of capacity to provide specialty services, could lead to higher spending, either through mechanisms of supply creating demand or through hospitals' anticipation of demands for additional services that come from advancing medical technology. In addition, Medicare Part D seems likely to fuel increases in spending for prescription drugs in Maryland and nationwide. This development may force changes to the Medicare program to curb costs.

STATE HEALTH CARE EXPENDITURES

A basic mission of the Maryland Health Care Commission (MHCC) is the dissemination of information to monitor the health care market in Maryland. Such information prominently includes the level and growth of health care spending. This report provides information about health care expenditures by Maryland residents in 2004, and how they differ from expenditures in 2003. It was developed to meet the requirement under Health-General Article, §19-134(g), which directs the MHCC to report annually on total payments in the state for health care services. The estimates provided in this report will help users to understand how aggregate health care spending changed from 2003 to 2004, and how spending levels and growth differed among service categories and the major payer groups in Maryland's health care system.

This year's report incorporates refinements to a number of methodological changes to improve estimates of private insurance spending. These improvements are intended to support presentation of a more consistent time series of information about nongovernmental health care spending in Maryland in future reports. They are documented in the technical notes that are available separately at mhcc.maryland.gov.

For the first time, this year's report includes projections of health care spending by service type for the Maryland population as a whole and for the populations under and over age 65. These projections assume that all of the factors that drove health care spending from 2000 to 2003 continue to 2006. They envision substantial increases in spending overall and for some types of services. However, even these projections are probably conservative, as they are not adjusted to reflect at least two major cost drivers on the horizon, increased hospital capacity in Maryland and Medicare coverage of prescription drugs.

How Much Did Maryland Spend for Health Care?

In 2004, Maryland residents spent \$28.8 billion for health care services, averaging \$5,179 per person. Total health care spending increased 7 percent from 2003 to 2004, but health care spending per capita increased more slowly—by 6 percent—as the population increased. Per capita spending growth in Maryland was below the national average of 7 percent, and the level of per capita spending in Maryland in 2004 (\$5,179) remained less than the U.S. average (\$5,374).

FIGURE 1
Total Health Care
Expenditures in Maryland,
2003 and 2004
(\$ billions)

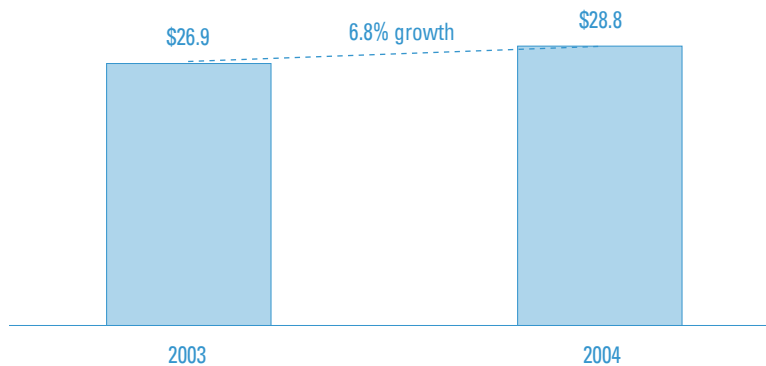
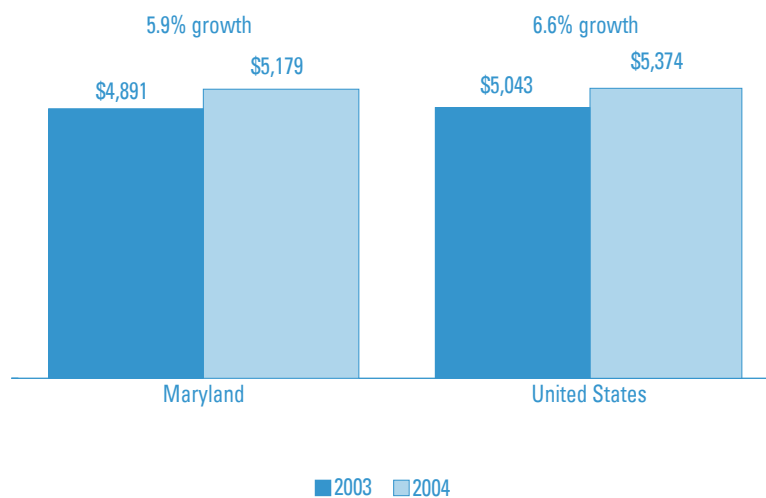


FIGURE 2
Per Capita Health Care
Expenditures in Maryland
and the U.S.,
2003 and 2004



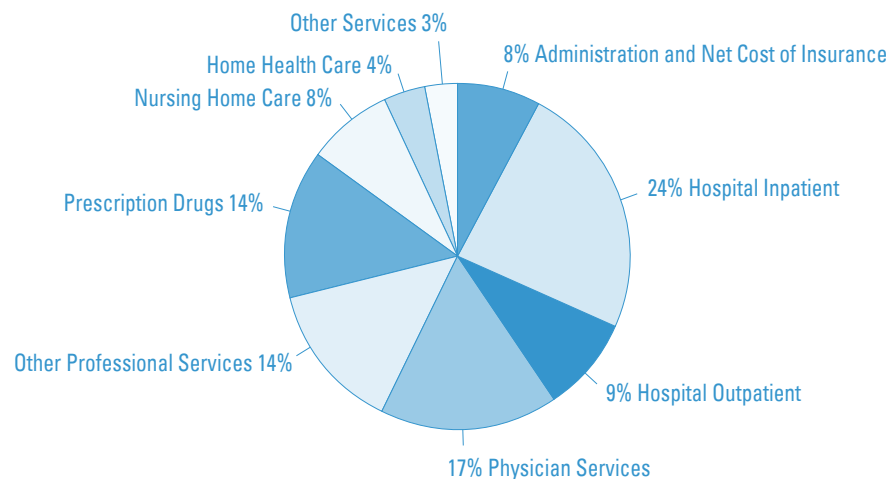
How Were Maryland's Health Care Dollars Spent?

One-third of Maryland's health care dollars were spent on hospital care—approximately \$9.6 billion in 2004. (Numbers in the figures and tables may not add to totals due to rounding.) Inpatient hospital care accounted for 24 percent (\$6.9 billion) of total health care spending; outpatient hospital care (including emergency room visits) accounted for 9 percent (\$2.6 billion). In Maryland, as nationally, the majority of inpatient hospital stays are associated with cardiovascular procedures and muscular-skeletal problems.

Physician and other professional services together accounted for nearly another one-third of health care spending by or on behalf of Maryland residents in 2004. Approximately 17 percent of health care spending (\$4.9 billion) was for physician services. Spending for other professional services accounted for 14 percent, or \$4.1 billion.

Spending for outpatient prescription drugs in Maryland was also 14 percent of total health care spending (\$4.0 billion) in 2004.⁴ Administrative costs and the net cost of health insurance together accounted for 8 percent of total health care spending.

FIGURE 3
Percent of Total Health Care
Expenditures in Maryland
by Type of Service, 2004



How Was Maryland's Health Care Paid For?

Many more Maryland residents have some form of private health insurance as their primary source of coverage than have public coverage. However, in Maryland as in other states, public insurance programs cover many of those who have the greatest health care needs—such as elderly or disabled residents. As a result, the private and public sectors each account for about half of total expenditures in Maryland paid by insurance programs.

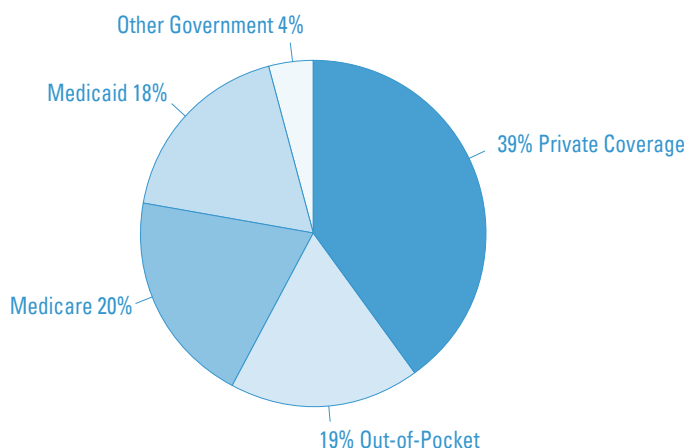
⁴ *Maryland Medical Care Database (MCDB) drug utilization data for the insured population (excluding Medicaid) indicate that in Maryland, approximately half of all drug expenditures in the last half of 2004 through the first quarter of 2005 were in any of five therapeutic classes: psychotherapeutic agents (11 percent), hormones (11 percent), central nervous system agents (11 percent), cardiovascular agents (9 percent), and antihyperlipidemic agents (9 percent) (MCDB, unpublished). Analysis of the national Medical Expenditure Panel Survey of the civilian noninstitutionalized population indicates that drug expenditures for adults aged 18 or older are concentrated somewhat differently, although the omission of children and the institutionalized population from the analysis makes direct comparison impossible. Nationally, five therapeutic classes accounted for two-thirds of drug expenditures for civilian noninstitutionalized adults in 2003: cardiovascular agents (17 percent), hormones (14 percent), central nervous system agents (13 percent), antihyperlipidemic agents (11 percent), and psychotherapeutic agents (10 percent) (<http://www.meps.ahrq.gov/papers/st110/stat110.pdf>).*

Medicare, the federal program that finances care for the elderly and disabled, is the largest government source of payment for health care in Maryland. In 2004, Medicare accounted for 20 percent of total health care spending in the state.

Medicaid is the state program that finances care for low-income Marylanders in certain eligibility categories (including low-income mothers and children) as well as costs for low-income elderly or disabled residents that Medicare does not pay. In 2004, Medicaid accounted for 18 percent of total expenditures for health care in Maryland.

Together, both programs accounted for 38 percent of health care expenditures in 2004, compared to 39 percent paid by private insurance arrangements—including commercial insurance, health maintenance organizations (HMOs), and self-insured employer health plans. Various other small government programs—including the military and veterans' programs and various targeted government assistance programs—accounted for 4 percent of total health care expenditures. Marylanders paid 19 percent of the cost of their health care—\$5.4 billion in 2004—out-of-pocket.

FIGURE 4
Percent of Total Health Care
Expenditures in Maryland by
Source of Payment, 2004



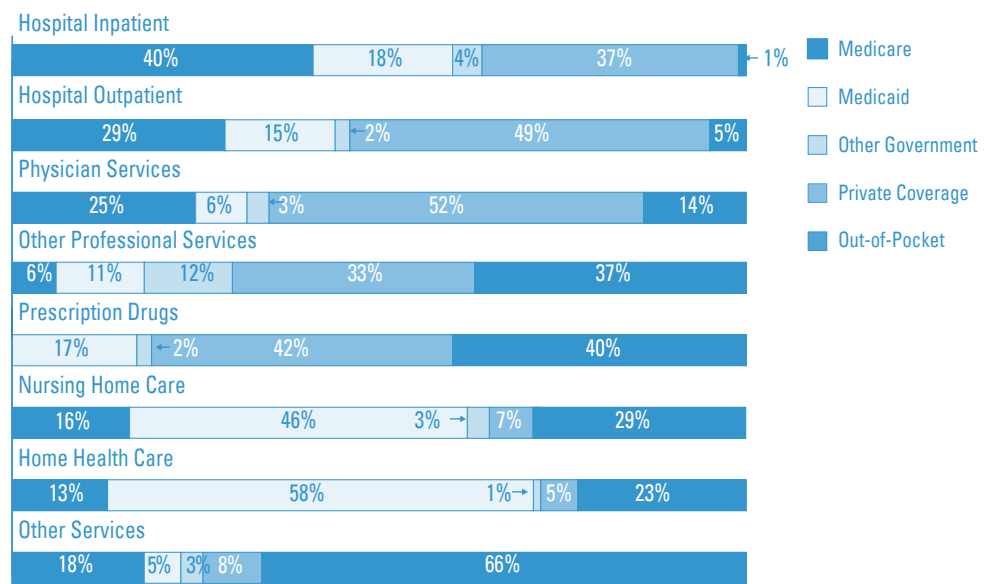
Because Maryland's various payers serve different populations and provide different coverage for some health care services, the amount of health care expenditures that each finances varies by type of service. Public programs are the largest source of payment for inpatient hospital care, nursing home care, and home health care. In 2004, they financed 62 percent of inpatient hospital care, 64 percent of nursing home care, and 72 percent of home health care.

Medicare is the largest single insurer for inpatient hospital care. Accounting for 40 percent of all expenditures for inpatient hospital care in 2004, Medicare financed a slightly larger proportion of inpatient care than all private insurance combined (37 percent). Medicaid and other government programs paid 22 percent of inpatient care in 2004.

Private insurance is the largest payer for both outpatient hospital care and physician services in Maryland. In 2004, private insurance financed 49 percent of all outpatient hospital care and 52 percent of expenditures for physician services. Medicare is the next largest source of payment for both types of expenditures, accounting for nearly 29 percent of expenditures for outpatient hospital care and 25 percent of expenditures for physician services.

The proportion of spending for either hospital or physician services paid out-of-pocket is low relative to that for other services, but it is especially low for inpatient hospital care. In 2004, Marylanders paid 1 percent of expenditures for inpatient hospital care out-of-pocket, compared with 5 percent of expenditures for outpatient care and about 14 percent of expenditures for physician services.

FIGURE 5A
Percent of Expenditures by
Type of Service and Source
of Payment, 2004



Note: Prescription drug expenditures for Medicare were less than 0.5%

As in other states, Medicaid is the largest source of financing for nursing home care and home health care. In 2004, Medicaid paid 46 percent of all expenditures for nursing home care in Maryland and 58 percent of expenditures for home health care. In contrast, Medicare paid for 16 percent of nursing home care (principally in the area of skilled nursing care) and 13 percent of home health services. Marylanders paid 29 percent of the cost of nursing home care out-of-pocket in 2004. Medicaid's large role in paying for nursing home and home health services and the large share paid by consumers out-of-pocket are in large part due to the fact that Medicare and private health insurance offer very limited coverage for these services. Private insurers,

in particular, are not a significant payer for either nursing home or home health services.

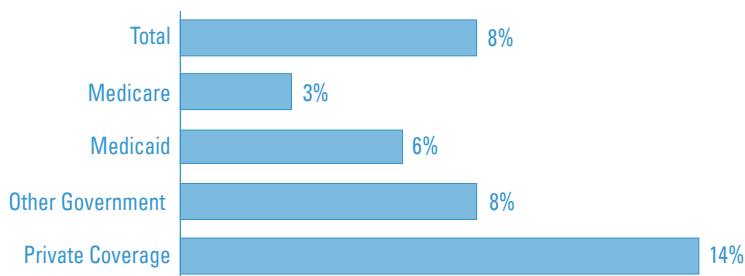
Most expenditures for prescription drugs were paid either by private insurance or by consumers directly as out-of-pocket spending. Marylanders paid for more of the cost of prescription drugs out-of-pocket in 2004 (40 percent) than for any other major type of service—and nearly as much as private insurers paid (42 percent). The Medicaid program's expenditures for prescription drugs—nearly 17 percent of total prescription drug expenditures—was disproportionate to the size of the Medicaid population, reflecting relatively high prescription drug costs for elderly or disabled beneficiaries. Because Medicare covered outpatient prescription drugs in 2004 only for beneficiaries enrolled in managed care, it accounted for a negligible share of total expenditures for prescription drugs. However, Medicare prescription drug spending will climb rapidly after January 2006, when Part D drug benefits enacted under the Medicare Modernization Act of 2003 begin.

Private insurance accounted for nearly 74 percent of total administrative and net insurance costs in 2004, reflecting the larger proportion of private insurance expenditures used for administration and net cost. The administrative expense and net cost of private insurance—including general administrative expenses associated with operations, claims adjudication, marketing, producer fees, returns on shareholder equity, and surplus (or unobligated funds)—accounted for 14 percent of total private insurance expenditures in 2004.

The administrative cost associated with public insurance programs accounted for 3 percent of Medicare expenditures and 6 percent of Medicaid expenditures in Maryland. These costs include eligibility determination and other administrative expenses, as well as claims adjudication. Higher expenditures for the administration of Medicaid are largely related to the greater complexity of determining eligibility for the program.

Marylanders paid 19 percent of all health care expenditures out-of-pocket in 2004,

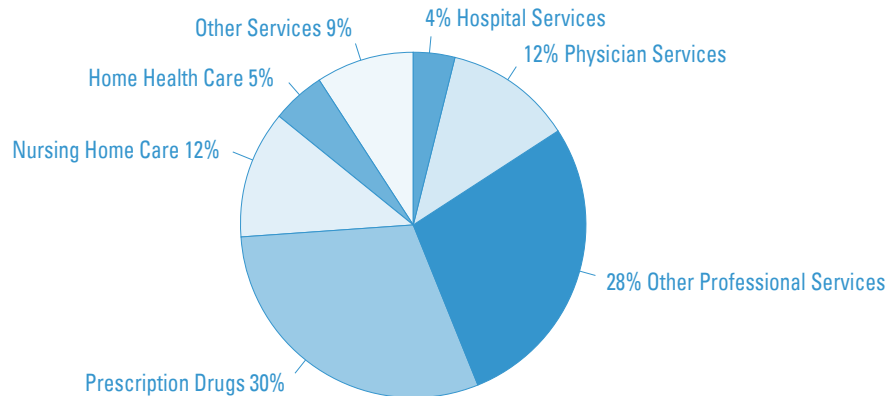
FIGURE 5B
Percent of Expenditures for
Administrative Cost and Net
Cost of Insurance by Source
of Payment, 2004



but they paid a much larger share out-of-pocket for some services than for others. Differences in out-of-pocket spending for specific service categories largely reflect private insurance and Medicare benefit designs that cover hospital and physician care more extensively than other professional services, prescription drugs, or nursing home and home health care.

In 2004, prescription drugs accounted for 30 percent of total out-of-pocket spending—followed by other professional services, which accounted for 28 percent of out-of-pocket spending. In contrast, hospital and physician services accounted for just 4 percent and 12 percent of out-of-pocket spending, respectively. Home health care and nursing home care together accounted for about 17 percent of out-of-pocket spending for health care in Maryland.

FIGURE 6
Out-of-Pocket Spending by
Type of Service, 2004



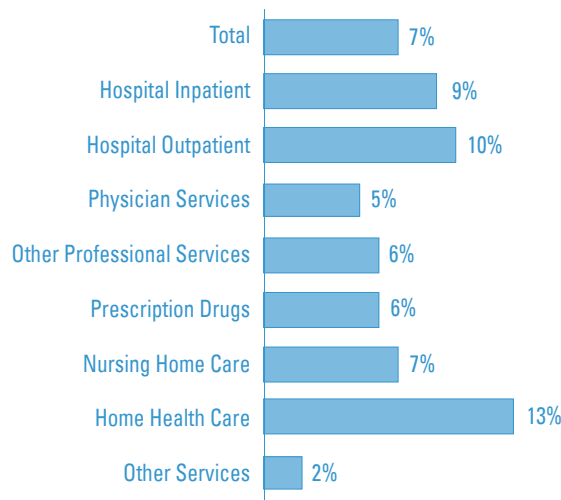
How Much Did Health Care Expenditures Grow in Maryland?

Total health care spending in Maryland grew by 7 percent in 2004, although spending for some service types grew faster. The fastest-growing components of spending included hospital inpatient care (which grew 9 percent), hospital outpatient services (10 percent), and home health care (13 percent). The growth in hospital spending reflected an increase in hospital admissions as well as an increase in average adjusted cost per admission.⁵ In addition, wages and employment increased

⁵ From FY2003 to FY2004, average adjusted cost per admission increased 7.4 percent. The number of admissions increased 2.3 percent (<http://www.dhmmh.state.md.us/publ-rel/html/2005/hc070605.htm>).

in Maryland hospitals, driving increases in hospital rates.⁶⁷ The steeper increase in spending for home health care—a relatively small component of total health care spending—reflected the ongoing expansion of eligibility for Medicaid-covered services in home and community-based settings in Maryland.⁸ Increased Medicaid spending accounted for 46 percent of the total growth in spending for nursing home care in 2004. Spending for other professional services and nursing home care grew by 6 percent and 7 percent, respectively.

FIGURE 7
Percent Change in Total
Expenditures by Type of
Service, 2003–2004



Note: Figure omits a 0.5-percent expenditure for administration and net cost of insurance.

⁶ Wages and fringe benefits for administrative and clinical staff in Maryland hospitals increased 3.9 percent from 2003 to 2004. Increases ranged from just more than 3 percent for social workers and nursing aids to more than 65 percent for some information systems staff. Overall professional-level information system employment surged due to the growing importance of clinical information systems. Physical therapists and respiratory therapists saw wage and benefit increases in the range of 8 to 13 percent. Nurse managers, nurse practitioners and clinical nurse specialists saw wage and benefit increases ranging from 5 to 8 percent. Total hospital employment in Maryland increased 3.9 percent in 2004, largely associated with the conversion of part-time personnel to full-time (HSCRC Hospital Wage Survey 2003-2004, unpublished).

⁷ Since 1971, the Maryland Health Services Cost Review Commission (HSCRC) has set the rates that hospitals may charge. In fiscal year 2004 (first half of CY 2004) HSCRC increased inpatient and outpatient rates by 5.3 percent and 4.3 percent, respectively. In fiscal year 2005 (last half of CY 2004), inpatient and outpatient rates were updated by 4.8 percent and 3.8 percent, respectively.

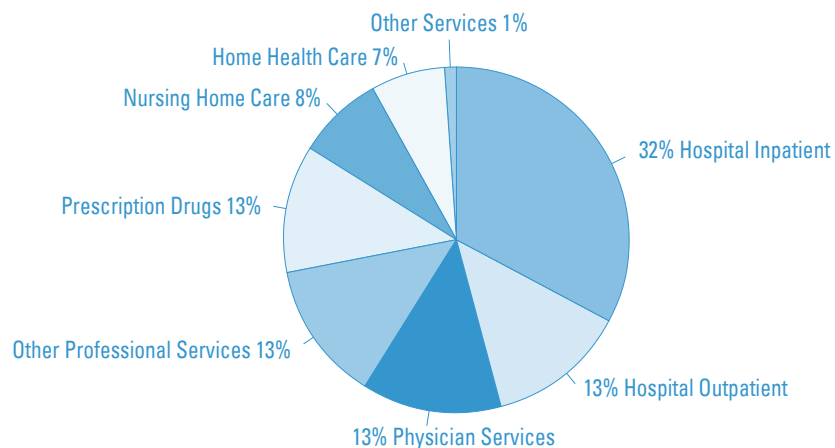
⁸ Maryland Medicaid funds six waivers for home and community-based services (HCBS), that served just over 12,300 people as of January 2004. The purpose of these waivers is to enable individuals who require long-term care services to remain in a community setting even though their advanced age or disability would warrant placement in a long-term care facility. These waivers provide services for individuals with developmental disabilities, medically fragile children and children with autism spectrum disorder, and elderly and other adults with physical disabilities or traumatic brain injury; they pay for both medical and qualified nonmedical services. The largest part of the waiver program—the Developmental Disabilities Waiver—served 9,432 people in 2004, a 15 percent increase from 2003. Amendments to the Senior Assisted Housing Waiver increased available slots in that program as well.

What Types of Services Accounted for the Growth in Expenditures?

Growth in expenditures for hospital inpatient and outpatient care accounted for nearly half (45 percent) of the increase in total expenditures from 2003 to 2004. Increased spending for physician services and other professional services together accounted for 26 percent of the growth in total expenditures, and increased spending for prescription drugs accounted for another 13 percent. In 2004, Marylanders paid \$834 million more for inpatient and outpatient care, and \$470 million more for physician and other professional services, than in 2003.

The slower growth of expenditures for prescription drugs in 2004 may reflect increased use of generic drugs, which are not only priced lower than brand name equivalents but also had their prices constrained by intense competition among generic drug manufacturers. The underlying price trend for prescription drugs as measured by the Consumer Price Index (CPI) slowed to 3.1 percent nationwide in 2004.⁹ Consumers and payers also benefited as Claritin and Prilosec moved to over-the-counter (OTC) status and patents expired on a number of heavily prescribed branded drugs. Other factors that may have contributed to slower drug spending include: the removal from the market of Vioxx and Bextra, two extremely popular COX-2 nonsteroidal antiinflammatory drugs (NSAIDs); FDA's black label warning on use of psychotropic drugs in adolescents; and increasing concern about various hormone therapies for postmenopausal women. Recent purchaser-driven initiatives such as multitiered formularies and increased use of consumer cost-sharing may also have dampened consumer demand. However, 2004 and 2005 saw a dramatic increase in the number of new molecular entities approved by the FDA, including several in the "blockbuster" category for treatment of insomnia, weight loss, and diabetes. Several of the new diabetes drugs represent 1st-in-class treatments, certain to increase prescription drug spending. Offsetting the introductions of these new drugs are patent expirations during 2005 and 2006 for several "blockbuster" drugs, including Pravachol, Zoloft, Ambien, Zofran, Provigil, and Zocor.

FIGURE 8
Change in Expenditures by
Type of Service as a Percent
of Total Change, 2003–2004



Note: Figure omits a 0.5-percent expenditure for administration and net cost of insurance.

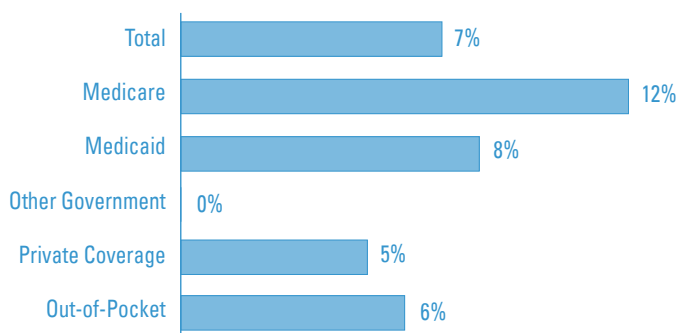
⁹ Producer Price Index (PPI) for pharmaceuticals remained stable at 5 percent.

What Payers Accounted for Most of the Growth in Expenditures?

In 2004, Medicare expenditures grew much faster than expenditures from any other payer source—by 12 percent, compared to 8-percent growth in Medicaid expenditures and 5-percent growth in private insurance expenditures. Medicare accounted for 48 percent of the increase in spending for hospital care in Maryland in 2004, as inpatient stays among Medicare beneficiaries rose 5.3 percent.¹⁰ Consumer out-of-pocket spending grew 6 percent, slightly faster than private insurance expenditures.

FIGURE 9

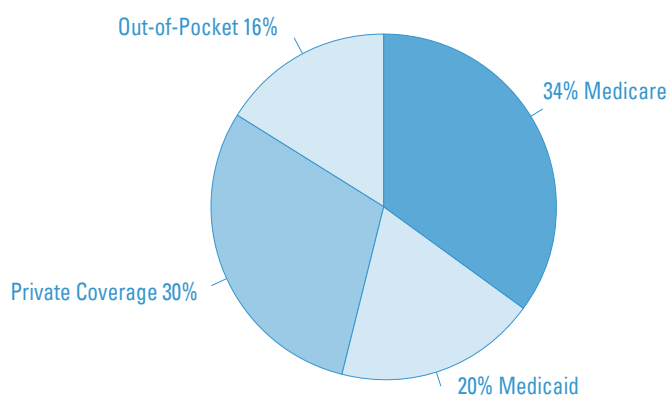
Percent Change in Total Expenditures by Source of Payment, 2003–2004



Consistent with the relatively fast growth of Medicare expenditures in Maryland in 2004 and the size of the program relative to other sources of payment, Medicare accounted for 34 percent of the additional dollars spent for health care from 2003 to 2004. Private insurance accounted for 30 percent of expenditure growth, while Medicaid accounted for 20 percent.

FIGURE 10

Growth in Expenditures by Selected Source of Payment as a Percent of Total Expenditure Growth, 2003–2004



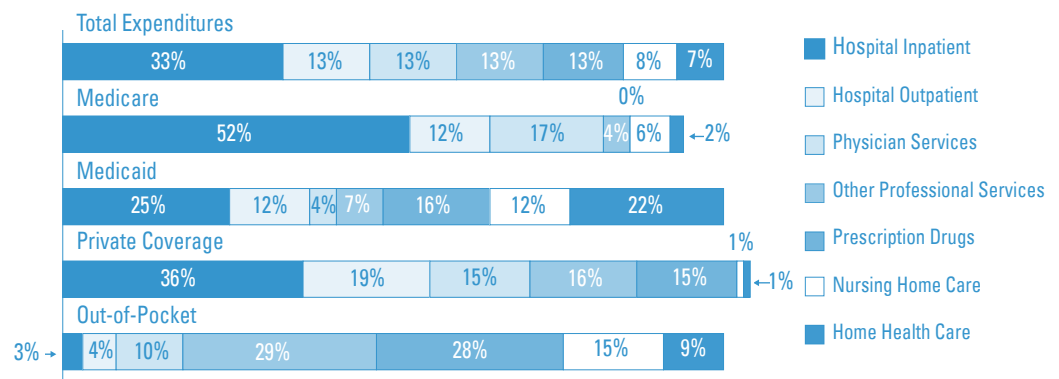
Note: Figure omits a 0.2 percent reduction in spending by other government programs.

¹⁰ Inpatient stays among Medicare beneficiaries were tabulated from 2003 and 2004 Medicare Provider Analysis and Review (MedPAR) files from the Centers for Medicare & Medicaid Services.

Growth in expenditures for different types of services affects Maryland's third-party payers differently due to differences among the populations that they cover and the extent to which they cover some services. Higher expenditures for hospital care accounted for 64 percent of the increase in total expenditures paid by Medicare. Inpatient care accounted for 52 percent of the increase in total Medicare expenditures in 2004, and increased spending for hospital outpatient care accounted for another 12 percent. For private insurers, inpatient and outpatient expenditures together accounted for 55 percent of the increase in expenditures in 2004. For Medicaid, however, nursing home and home health costs accounted for nearly as much of the growth in program cost (34 percent) as inpatient and outpatient care (37 percent), reflecting the diverse populations that Maryland's Medicaid program serves—primarily children, pregnant women, and residents who are elderly or disabled.

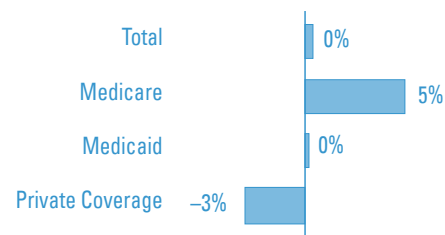
Consumer out-of-pocket spending remained at about the same proportion of total spending in 2004 as in 2003 (19 percent), although the dollar amount that consumers spent out-of-pocket increased. For consumers, most out-of-pocket spending is associated with nonphysician professional services and prescription drugs; collectively, these services accounted for 56 percent of the growth in the level of out-of-pocket spending in 2004.

FIGURE 11
Change in Expenditures
by Type of Service as a
Percent of Total Change
for Source of Payment,
2003–2004



Note: Does not equal 100 percent because administrative expense is not shown.

FIGURE 12
Change in Expenditures
for Administration and
the Net Cost of Insurance as
a Percent of Total Change for
Source of Payment, 2003–2004



Note: 0 percent indicates less than 0.5 percent.

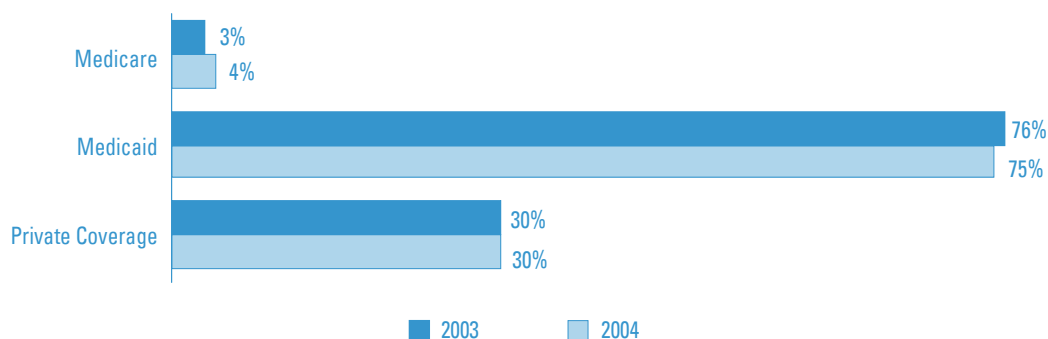
The administrative costs of the traditional Medicare program declined. However, rising enrollment of Medicare beneficiaries in managed care organizations drove a small increase in the administrative and net costs of the program as a whole,

accounting for 5 percent of the growth in Medicare expenditures in 2004. The administrative and net cost of coverage in HealthChoice managed care organizations is similar to that in private insurance and greater than that in the traditional Medicare program. In contrast to the recent trend among private insurers in Maryland, the administrative and net costs of private insurance in Maryland declined 3 percent from 2003 to 2004.¹¹

Did HMOs Have a Different Cost Experience?

About the same proportion of insured Marylanders were enrolled in HMOs in 2004 as in 2003. HMOs accounted for 26 percent of total health care expenditures in Maryland in 2004, but much larger shares of both Medicaid and private insurance expenditures. While 75 percent of Medicaid beneficiaries were enrolled in HMOs (called managed care organizations or MCOs) in 2004, they accounted for just 33 percent of program expenditures. Medicaid-enrolled children and their parents are more likely to be enrolled in MCOs than elderly or disabled beneficiaries, and also characteristically use much less health care.¹² In contrast, 30 percent of Maryland residents with private insurance were enrolled in managed care, but they accounted for 34 percent of privately insured expenditures. Higher insured expenditures among Marylanders in HMOs probably reflect lower cost-sharing in HMOs. HMOs characteristically have no deductible or coinsurance for most covered services, but may charge flat copayments for physician visits and other primary care.

FIGURE 13
HMO Enrollment as a
Percent of Total Enrollment
by Major Third-Party Payer,
2003 and 2004



The proportion of total expenditures financed through HMOs increased slightly, from 25 percent in 2003 to 26 percent in 2004. In Maryland, expenditures for health care obtained through an HMO have remained at about the same proportion

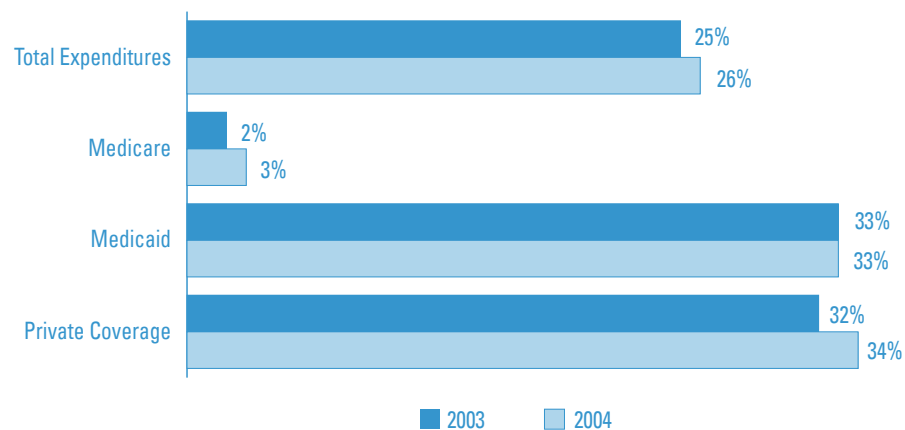
¹¹ Maryland Health Care Commission (2005). *Spotlight on Maryland, Health Insurance Premiums, the Underwriting Cycle, and Carrier Surpluses* (http://mhcc.maryland.gov/spotlight/health_ins_prem_spotlight_0305.pdf).

¹² Certain Medicaid beneficiaries are excluded from MCO enrollment, including long-term nursing home residents and those dually enrolled in Medicare.

of total spending since 1999. The number of Medicare beneficiaries enrolled in HMOs increased slightly in 2004, with a commensurate increase in Medicare HMO expenditures of 1 percentage point.

Medicare beneficiaries participating in HMOs in Maryland remained well below the 12.8 percent share reported nationally¹³ and well below Maryland participation levels in the late 1990s. Nevertheless, with the launching of Medicare Part D in January 2006 and the potential for Medicare Advantage plans to reduce or eliminate the “doughnut hole” in prescription drugs coverage, Medicare HMO enrollment may grow substantially, nationally and in Maryland. Conversely, federal policy encouraging medical savings accounts and high-deductible health coverage may discourage growth of HMO enrollment among the general population, as HMOs conventionally have charged nominal copayments for care, but no deductible. The development of high-deductible HMO options may ultimately attract larger numbers of privately insured Marylanders to HMOs, but these products were unavailable in 2004.

FIGURE 14
HMO Expenditures as a
Percent of Total Expenditures
by Major Third-Party Payer,
2003 and 2004

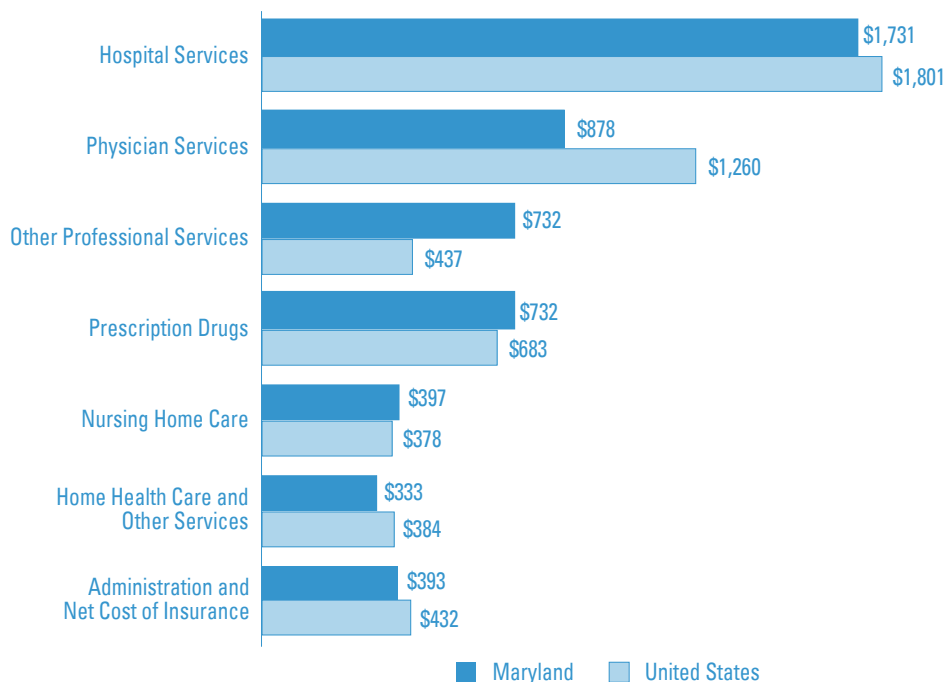


How Did Maryland Compare to the Nation?

Spending per capita for all health care services in Maryland is near the national average, but Maryland’s pattern of spending by service type differs. Specifically, Marylanders spend less per capita for both hospital and physician care, but much more for other professional services. In 2004, Marylanders averaged \$2,609 per capita for hospital and physician services, compared to the U.S. average of \$3,061—but \$732 for other professional services, compared to the U.S. average of just \$437. Marylanders also spent more per capita for prescription drugs (\$732), compared to the U.S. average (\$683). In part reflecting Medicare’s importance as a payer for health care in Maryland, the average administrative and net costs of insurance across the state (\$393 per capita) were lower than the national average (\$432).

¹³ Centers for Medicare & Medicaid Services (<http://cms.hhs.gov/healthplans/reportfilesdata/>)

FIGURE 15
Per Capita Expenditures in
Maryland and the U.S. by
Type of Service, 2004

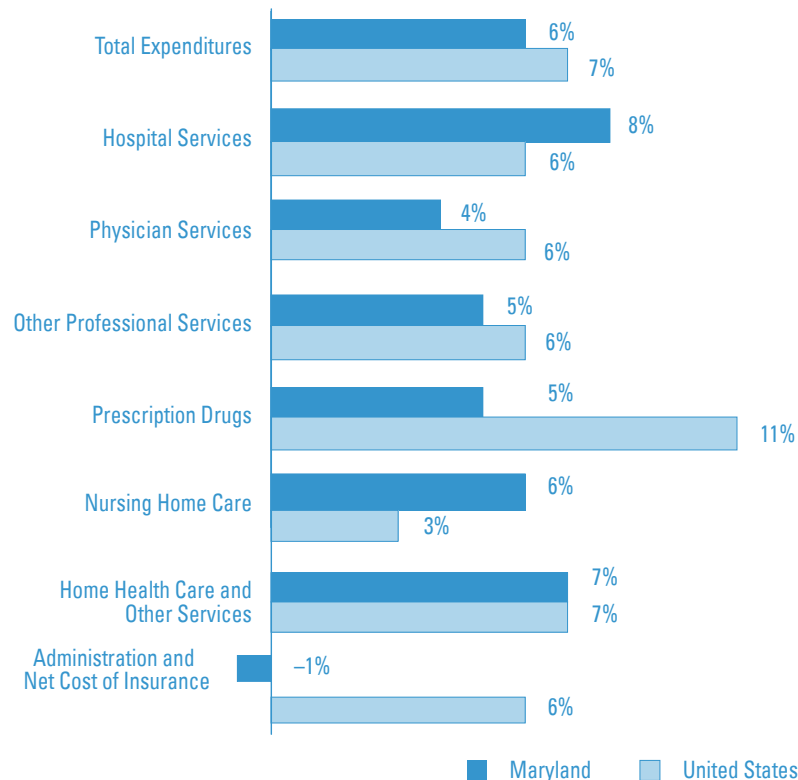


Note: Home Health Care and Other Services are shown as one category since payments provided through home and community-based waivers in the Medicaid program are included in the Other Services group in the National Health Expenditure Accounts.

Per capita spending for both hospital care and prescription drugs in Maryland moved toward the national average in 2004. Per capita spending for hospital care was slightly lower than the national average in 2004, but it grew at a faster rate (8 percent versus 6 percent), narrowing the gap in per capita hospital spending that was observed in 2003. Per capita expenditures for prescription drugs were higher in Maryland than the national average in 2004 but grew more slowly (6 percent versus 11 percent). As a result, the level of per capita spending for prescription drugs in Maryland also trended toward the national average.

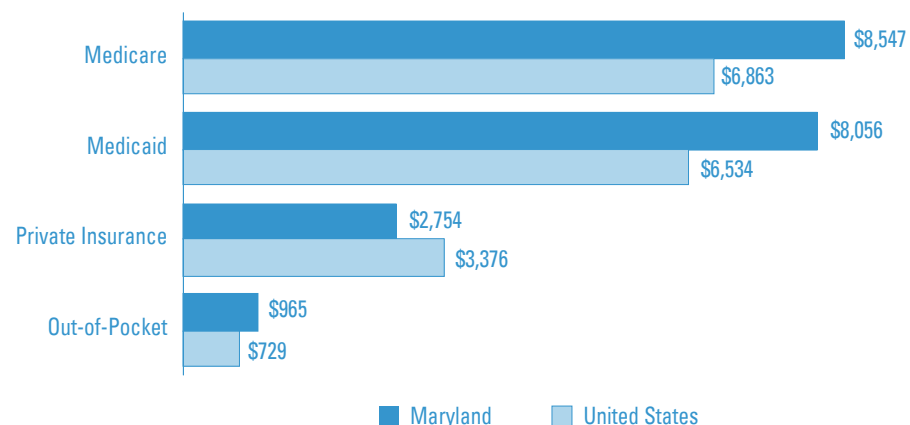
Conversely, expenditures for several service types diverged from the national average in 2004. Per capita spending for physician services and the administrative and net costs of insurance were below the national average and also grew more slowly. However, per capita expenditures for nursing home care exceeded the national average in 2004 (\$397 versus \$378) and also grew more quickly (6 percent versus 3 percent)—suggesting that expenditures for nursing home care in Maryland may exceed the national average by a widening margin in future years. As in other states, these expenditures in Maryland are paid primarily by Medicaid and out-of-pocket.

FIGURE 16
Percent Growth in Per Capita
Expenditures in Maryland
and the U.S. by Type of
Service, 2003–2004



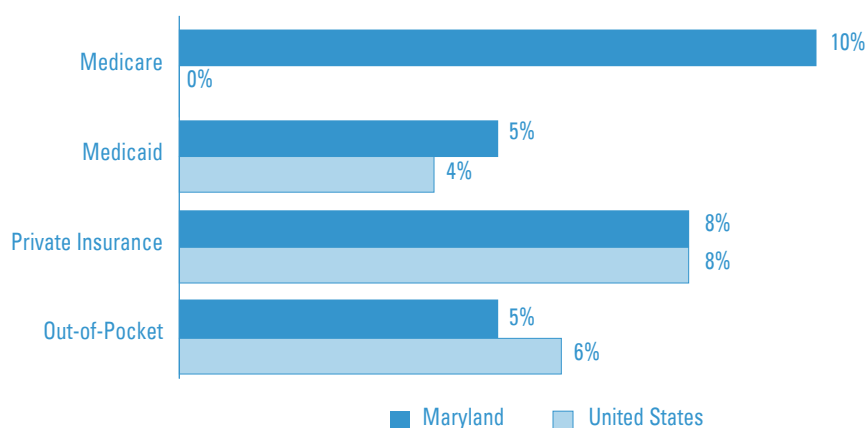
Both Medicare and Medicaid expenditures per beneficiary were higher in Maryland than the national averages in 2004, and also grew faster. Expenditures per Medicare beneficiary were 25 percent above than the national average (\$8,547 versus \$6,863); expenditures per Medicaid beneficiary were 23 percent higher (\$8,056 versus \$6,534). Per capita spending in both programs grew faster than the national averages from 2003 to 2004, but Medicare spending per capita grew especially fast in large part due to greater Medicare spending for hospital care. In 2004, Medicare spending per capita in Maryland increased 10 percent, compared to no appreciable growth nationally. Medicaid expenditures per capita increased 5 percent in Maryland, compared to 4 percent nationally.

FIGURE 17
Per Capita Expenditures in
Maryland and the U.S. by
Source of Payment, 2004



In contrast, private insurance spending per insured resident in Maryland (including major medical and Medicare supplemental coverage) was substantially less than the national average—\$2,754 compared to \$3,376 nationally. Lower average private insurance spending may relate to Maryland’s relatively high rate of insurance coverage compared to the national average. In states with relatively low rates of coverage, those who are insured may have greater health care needs. Conversely, out-of-pocket spending per capita was greater in Maryland than the national average (\$965 versus \$729), related to significant cost-sharing in private insurance plans and probably also greater use of elective services that are uninsured. The rate of growth in private insurance expenditures in Maryland was about equal to the national growth rate in 2004 (8 percent). Out-of-pocket spending grew somewhat more slowly in 2004 (5 percent) than the national average (6 percent).

FIGURE 18:
Percent Change in Per
Capita Expenditures in
Maryland and the U.S.
by Source of Payment,
2003–2004



How Much of the Population Accounts for Most Health Care Spending?

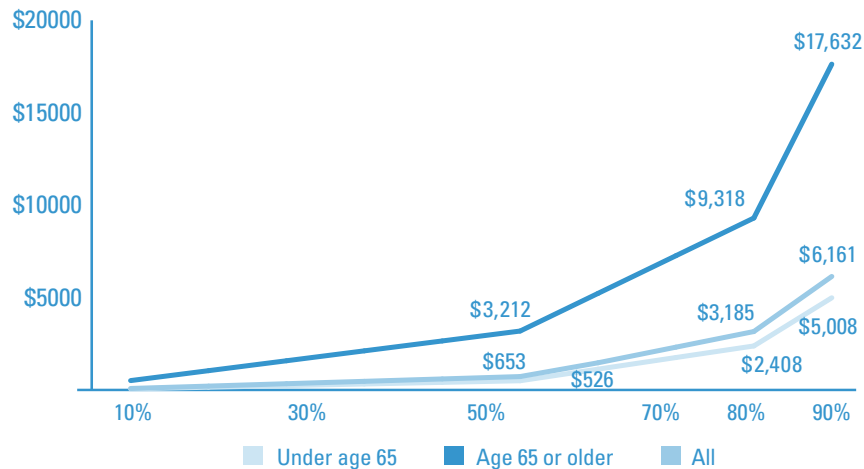
Similar to the nation as a whole, most Marylanders are in good health and spend relatively little for health care. In 2003 (the most recent year for which expenditure estimates of this type are available) half of noninstitutionalized Marylanders incurred less than \$653 per person for health care services. Conversely, relatively few Marylanders account for most health care spending.¹⁴ In 2003, the 10 percent of Marylanders with the highest costs had health care expenditures that exceeded \$6,464 per person.

Per capita health care expenditures for the elderly population are much higher than for the nonelderly population. At the median, spending by Marylanders age 65 and over was about six times as high as spending by Marylanders under age 65 (\$3,212 versus \$526). This cost differential is expected to drive accelerated growth in total health care spending

¹⁴Expenditure estimates are based on the Medical Expenditure Panel Survey—Household Component (MEPS-HC), reweighted to reflect the Maryland population. The MEPS-HC does not capture expenditures for nursing home care.

in Maryland and across the country, as the population ages. However, expenditures for the nonelderly population also are expected to increase, as the proportion of children and working-age adults with chronic conditions is projected to rise.¹⁵

FIGURE 19
Distribution of Per Capita
Health Expenditures:
Maryland Population, 2003



Source: AHRQ, Medical Expenditure Panel Survey, 2003.

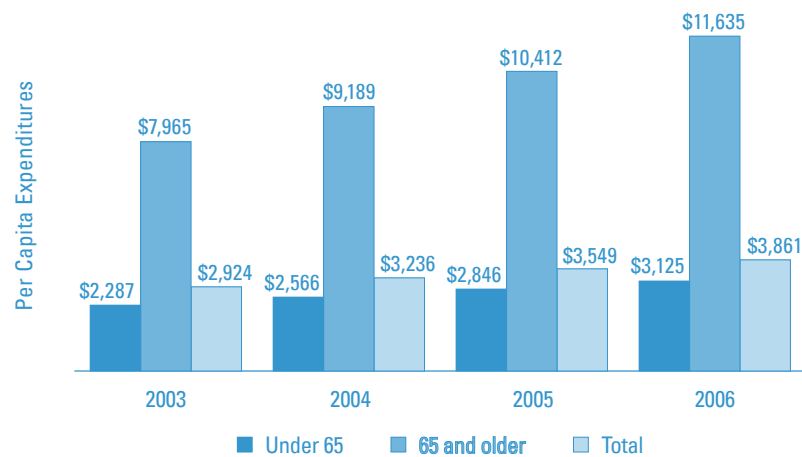
Outlook for the Future

From 2000 to 2003, average health care expenditures for Maryland's nonelderly population increased 37 percent—averaging 11 percent growth per year. At this rate of growth, average expenditures for Maryland's nonelderly population will reach \$3,125 in 2006, compared to \$2,287 in 2003. Expenditures for Maryland's elderly population have risen even faster, by 13 percent per year from 2000 to 2003. At this rate of growth, average expenditures among the population over age 65 will rise from \$7,965 in 2003 to \$11,635 in 2006—an increase of 46 percent. Average expenditures for Marylanders of all ages will grow from \$2,964 in 2003 to \$3,861 in 2006.

Based on past experience, expenditures for outpatient hospital care, prescription drugs and home health care can be expected to increase more rapidly than other service sectors for the population of Maryland. Spending on outpatient care has increased by 12 percent per year, while spending on prescription drugs and home health care have grown by 16 percent and 15 percent, respectively.

¹⁵Approximately half of all Americans—primarily older adults—have at least one chronic illness, and about 25 percent have more than one chronic illness. Nationally, individuals with chronic illness account for approximately 83 percent of all health care spending—in large part due to a greater likelihood of hospitalization and longer lengths of inpatient stays (Partnership for Solutions, Medicare Expenditure Panel Survey 2001, *Chronic Conditions: Making the Case for Ongoing Care*, September 2004).

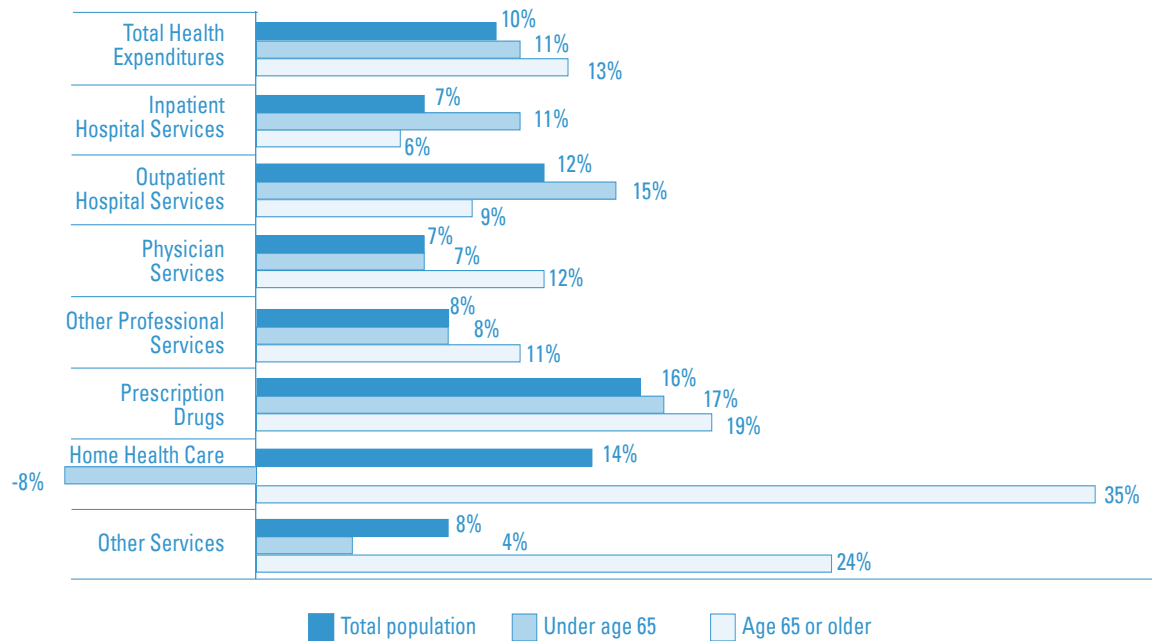
FIGURE 20
Actual and Projected Per
Capita Health Expenditures
Maryland Population
2003–2006p



However, expenditure growth by service category for the population under age 65 has been very different than growth rates for the population over age 65. For noninstitutionalized Marylanders under age 65, expenditures for hospital care (both inpatient and outpatient) and prescription drugs have grown relatively fast, compared to total expenditures. While their total expenditures increased at an estimated average annual rate of 11 percent from 2000 to 2003, their expenditures for outpatient care increased 15 percent per year and their spending for prescription drugs increased 17 percent per year.

Total expenditures for Marylanders age 65 or older increased faster than expenditures for the younger population, by an average rate of 13 percent per year from 2000 to 2003 (compared to 11 percent for Marylanders under age 65). For the population age 65 or older, expenditures for inpatient and outpatient hospital care have grown more slowly than their expenditures overall—respectively, by an estimated 6 percent and 9 percent per year, while spending on prescription drugs has increased more rapidly (19 percent per year). However, their expenditures for home health care have increased very fast. For the population over age 65, expenditures for home health care increased nearly 35 percent per year—more than doubling their home health care expenditures over three years. Changes in Medicare benefits, implementing Part D, may change spending patterns among the elderly for prescription drugs, but also for other services, if Medicare beneficiaries respond to the program’s incentives to enroll in Medicare Advantage (managed care) plans.

FIGURE 21
Average Annual Rates of
Growth in Per Capita Health
Expenditures Maryland
Population Over and Under
Age 65, 2000–2003



SUPPORTING TABLES

Health Care Expenditures by Type of Service

Table 1A: Total Maryland Health Care Expenditures (\$ thousands), 2004

Expenditure Components	GOVERNMENT SECTOR					PRIVATE SECTOR		TOTAL EXPENDI- TURES
	Medicare	Medicaid			Other Government	Private Coverage	Out-of- Pocket	
		Total	Traditional	HealthChoice				
TOTAL HEALTH EXPENDITURES	\$5,857,172	\$5,076,060	\$3,384,848	\$1,691,212	\$1,212,252	\$11,272,500	\$5,364,719	\$28,782,704
Hospital Services								
Inpatient	2,804,990	1,266,026	661,187	604,839	256,635	2,540,187	76,673	6,944,511
Outpatient	756,401	385,122	135,727	249,394	60,055	1,275,621	143,174	2,620,373
Physician Services	1,219,094	305,486	85,362	220,124	137,048	2,544,369	660,538	4,866,535
Other Professional Services	257,291	464,945	354,837	110,108	506,023	1,336,461	1,506,045	4,070,766
Prescription Drugs	8,535	667,268	484,557	182,711	66,426	1,699,679	1,594,674	4,036,582
Nursing Home Care	345,092	1,008,360	924,763	83,598	61,483	151,969	640,656	2,207,560
Home Health Care	148,294	643,091	643,091	n/a	9,799	52,234	255,266	1,108,684
Other Services	134,631	40,567	40,567	n/a	19,364	61,890	487,693	744,146
Administration and Net Cost of Insurance	182,844	295,195	54,756	240,439	95,418	1,610,089	n/a	2,183,547

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Table 1B: Total Maryland Health Care Expenditures (\$ thousands), 2003

Expenditure Components	GOVERNMENT SECTOR					PRIVATE SECTOR		TOTAL EXPENDI- TURES
	Medicare	Medicaid			Other Government	Private Coverage	Out-of-Pocket	
		Total	Traditional	HealthChoice				
TOTAL HEALTH EXPENDITURES	\$5,230,732	\$4,717,301	\$3,150,384	\$1,566,917	\$1,215,149	\$10,719,412	\$5,064,217	\$26,946,811
Hospital Services								
Inpatient	2,478,094	1,177,719	640,309	537,410	284,195	2,338,522	68,862	6,347,393
Outpatient	681,651	341,412	118,355	223,057	59,495	1,171,061	129,662	2,383,282
Physician Services	1,111,777	289,373	75,879	213,494	139,471	2,460,973	630,505	4,632,099
Other Professional Services	230,902	439,650	348,208	91,442	498,861	1,245,368	1,420,295	3,835,076
Prescription Drugs	6,603	609,958	437,022	172,937	60,210	1,618,573	1,511,161	3,806,505
Nursing Home Care	304,474	965,736	875,619	90,117	42,068	148,265	596,145	2,056,688
Home Health Care	135,579	563,975	563,975	n/a	7,455	48,045	228,459	983,513
Other Services	128,536	34,756	34,756	n/a	23,190	61,346	479,129	726,958
Administration and Net Cost of Insurance	153,114	294,721	56,261	238,461	100,203	1,627,259	n/a	2,175,297

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Table 1C: Rate of Growth in Expenditures by Type of Service and Source of Payment, 2003–2004

Expenditure Components	GOVERNMENT SECTOR					PRIVATE SECTOR		TOTAL EXPENDITURES
	Medicare	Medicaid		Other Government		Private Coverage	Out-of-Pocket	
		Total	Traditional	HealthChoice				
TOTAL HEALTH EXPENDITURES	12.0%	7.6%	7.4%	7.9%	-0.2%	5.2%	5.9%	6.8%
Hospital Services								
Inpatient	13.2	7.5	3.3	12.5	-9.7	8.6	11.3	9.4
Outpatient	11.0	12.8	14.7	11.8	0.9	8.9	10.4	9.9
Physician Services	9.7	5.6	12.5	3.1	-1.7	3.4	4.8	5.1
Other Professional Services	11.4	5.8	1.9	20.4	1.4	7.3	6.0	6.1
Prescription Drugs	29.3	9.4	10.9	5.7	10.3	5.0	5.5	6.0
Nursing Home Care	13.3	4.4	5.6	-7.2	46.1	2.5	7.5	7.3
Home Health Care	9.4	14.0	14.0	n/a	31.4	8.7	11.7	12.7
Other Services	4.7	16.7	16.7	n/a	-16.5	0.9	1.8	2.4
Administration and Net Cost of Insurance	19.4	0.2	-2.7	0.8	-4.8	-1.1	n/a	0.4

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Health Care Expenditures by Source of Payment

Table 2: Expenditures by Source of Payment as a Percent of Total Expenditures, 2004

Expenditure Components	MEDICARE	MEDICAID	OTHER GOVERNMENT	PRIVATE COVERAGE	OUT-OF-POCKET	ALL PAYERS
TOTAL HEALTH EXPENDITURES	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Hospital Services						
Inpatient	47.9	24.9	21.2	22.5	1.4	24.1
Outpatient	12.9	7.6	5.0	11.3	2.7	9.1
Physician Services	20.8	6.0	11.3	22.6	12.3	16.9
Other Professional Services	4.4	9.2	41.7	11.9	28.1	14.1
Prescription Drugs	0.1	13.1	5.5	15.1	29.7	14.0
Nursing Home Care	5.9	19.9	5.1	1.3	11.9	7.7
Home Health Care	2.5	19.0	0.8	0.5	4.8	3.9
Other Services	2.3	1.2	1.6	0.5	9.1	2.6
Administration and Net Cost of Insurance	3.1	5.8	7.9	14.3	n/a	7.6

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Table 3: Per Capita Expenditures by Source of Payment and Type of Service, 2003 and 2004

Expenditure Components	MEDICARE		MEDICAID		PRIVATE COVERAGE	
	2003	2004	2003	2004	2003	2004
TOTAL HEALTH EXPENDITURES	\$7,756	\$8,547	\$7,662	\$8,056	\$2,560	\$2,754
Hospital Services						
Inpatient	3,674	4,093	2,514	2,676	558	621
Outpatient	1,011	1,104	729	814	280	312
Physician Services	1,648	1,779	618	646	588	622
Other Professional Services	342	375	938	983	297	326
Prescription Drugs	10	12	1,302	1,410	387	415
Nursing Home Care	451	504	2,061	2,132	35	37
Home Health Care	201	216	1,204	1,359	11	13
Other Services	191	196	74	86	15	15
Administration and Net Cost of Insurance	227	267	629	624	389	393

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Table 4: Rate of Growth in Per Capita Expenditures by Source of Payment and Type of Service, 2003–2004

Expenditure Components	MEDICARE	MEDICAID	PRIVATE COVERAGE
TOTAL HEALTH EXPENDITURES	10.2%	5.1%	7.6%
Hospital Services			
Inpatient	11.4	6.5	10.0
Outpatient	9.2	11.7	10.3
Physician Services	7.9	4.6	5.5
Other Professional Services	9.7	4.7	8.9
Prescription Drugs	27.2	8.3	6.9
Nursing Home Care	11.5	3.4	4.6
Home Health Care	7.6	12.9	10.1
Other Services	3.1	15.6	3.1
Administration and Net Cost of Insurance	17.5	-0.8	1.2

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Table 5: Expenditures by Type of Service as a Percent of Total Expenditures by Source of Payment, 2004

Expenditure Components	GOVERNMENT SECTOR				PRIVATE SECTOR			TOTAL
	Medicare	Medicaid	Other Government	Total Government	Private Coverage	Out-of-Pocket	Total Private	
TOTAL HEALTH EXPENDITURES	20.3%	17.6%	4.2%	42.2%	39.2%	18.6%	57.8%	100.0%
Hospital Services								
Inpatient	40.4	18.2	3.7	62.3	36.6	1.1	37.7	100.0
Outpatient	28.9	14.7	2.3	45.9	48.7	5.5	54.1	100.0
Physician Services	25.1	6.3	2.8	34.1	52.3	13.6	65.9	100.0
Other Professional Services	6.3	11.4	12.4	30.2	32.8	37.0	69.8	100.0
Prescription Drugs	0.2	16.5	1.6	18.4	42.1	39.5	81.6	100.0
Nursing Home Care	15.6	45.7	2.8	64.1	6.9	29.0	35.9	100.0
Home Health Care	13.4	58.0	0.9	72.3	4.7	23.0	27.7	100.0
Other Services	18.1	5.5	2.6	26.1	8.3	65.5	73.9	100.0
Administration and Net Cost of Insurance	8.4	13.5	4.4	26.3	73.7	n/a	73.7	100.0

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Table 6: Percent of the Growth in Expenditures for Sources of Payment Associated with Different Types of Service, 2003–2004

Expenditure Components	GOVERNMENT SECTOR		PRIVATE SECTOR		TOTAL
	Medicare	Medicaid	Private Coverage	Out-of-Pocket	
TOTAL HEALTH EXPENDITURES	100.0%	100.0%	100.0%	100.0%	100.0%
Hospital Services					
Inpatient	52.2	24.6	36.5	2.6	32.5
Outpatient	11.9	12.2	18.9	4.5	12.9
Physician Services	17.1	4.5	15.1	10.0	12.8
Other Professional Services	4.2	7.1	16.5	28.5	12.8
Prescription Drugs	0.3	16.0	14.7	27.8	12.5
Nursing Home Care	6.5	11.9	0.7	14.8	8.2
Home Health Care	2.0	22.1	0.8	8.9	6.8
Other Services	1.0	1.6	0.1	2.8	0.9
Administration and Net Cost of Insurance	4.7	0.1	–3.1	n/a	0.4

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

**Table 7: Percent of the Growth in Expenditures for Types of Service
Associated with Different Sources of Payment, 2003–2004**

Expenditure Components	GOVERNMENT SECTOR				PRIVATE SECTOR		TOTAL
	Medicare	Medicaid Traditional	Medicaid HealthChoice	Other Government	Private Coverage	Out-of-Pocket	
TOTAL HEALTH EXPENDITURES	34.1%	12.8%	6.8%	–0.2%	30.1%	16.4%	100.0%
Hospital Services							
Inpatient	54.7	3.5	11.3	–4.6	33.8	1.3	100.0
Outpatient	31.5	7.3	11.1	0.2	44.1	5.7	100.0
Physician Services	45.8	4.0	2.8	–1.0	35.6	12.8	100.0
Other Professional Services	11.2	2.8	7.9	3.0	38.6	36.4	100.0
Prescription Drugs	0.8	20.7	4.2	2.7	35.3	36.3	100.0
Nursing Home Care	26.9	32.6	–4.3	12.9	2.5	29.5	100.0
Home Health Care	10.2	63.2	n/a	1.9	3.3	21.4	100.0
Other Services	35.5	33.8	n/a	–22.3	3.2	49.8	100.0
Administration and Net Cost of Insurance	360.4	–18.2	24.0	–58.0	–208.1	n/a	100.0

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

Table 8: Per Capita Expenditures and Rate of Growth, Maryland, 2003–2004

Expenditure Components	2003	2004	PERCENT CHANGE
TOTAL HEALTH EXPENDITURES	\$4,891	\$5,179	5.9%
Inpatient	1,152	1,249	8.4
Outpatient	433	471	9.0
Physician Services	841	876	4.1
Other Professional Services	696	732	5.2
Prescription Drugs	691	726	5.1
Nursing Home Care	373	397	6.4
Home Health Care and Other Services	310	333	7.4
Administration and Net Cost of Insurance	395	393	–0.5

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see mhcc.maryland.gov/health_care_expenditures/she04/technicalnotes.pdf.

HMO Enrollment

Table 9: Number and Percent of Total Enrollment in HMOs by Major Insurer, 2003 and 2004

YEAR	HMO ENROLLMENT NUMBER		
	Medicare	Medicaid	Private Coverage
2003	21,499	468,529	1,262,060
2004	23,806	473,075	1,212,452
YEAR	PERCENT OF TOTAL ENROLLMENT		
	Medicare	Medicaid	Private Coverage
2003	3.2%	76.1%	30.1%
2004	3.5%	75.1%	29.6%

Table 10: Rate of Growth in HMO Enrollment by Major Insurer, 1995–2004

YEAR	MEDICARE	MEDICAID	PRIVATE COVERAGE
2003–2004	10.7%	1.0%	–3.9%
2002–2003	12.2%	3.4%	5.4%
2001–2002	3.5	7.4	–7.1
2000–2001	–71.6	8.5	–9.3
1999–2000	–19.5	10.0	–2.0
1998–1999	–3.1	11.4	–1.6
1997–1998	5.3	79.4	–0.4
1996–1997	125.0	30.4	5.6
1995–1996	131.8	–0.1	6.6

United States Health Expenditure Estimates and Projections

Table 11: Total Expenditures and Rate of Growth, United States (\$ millions), 2003–2004

Expenditure Components	2003	2004	PERCENT CHANGE
TOTAL HEALTH EXPENDITURES	\$1,466,519	\$1,578,019	7.6%
Hospital Services	494,516	528,748	6.9
Physician Services	344,225	370,070	7.5
Other Professional Services	119,904	128,214	6.9
Prescription Drugs	179,205	200,548	11.9
Nursing Home Care	106,632	110,961	4.1
Home Health Care and Other Services	103,786	112,646	8.5
Administration and Net Cost of Insurance	118,251	126,832	7.3

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see mhcc.maryland.gov/health_care_expenditures/she04/technicalnotes.pdf.

Table 12: Per Capita Expenditures and Rate of Growth, United States, 2003–2004

Expenditure Components	2003	2004	PERCENT CHANGE
TOTAL HEALTH EXPENDITURES	\$5,043	\$5,374	6.57%
Hospital Services	1,700	1,801	5.90
Physician Services	1,184	1,260	6.48
Other Professional Services	412	437	5.91
Prescription Drugs	616	683	10.84
Nursing Home Care	367	378	3.06
Home Health Care and Other Services	357	384	7.50
Administration and Net Cost of Insurance	407	432	6.23

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see mhcc.maryland.gov/health_care_expenditures/she04/technicalnotes.pdf.

Table 13: Percent of Total Expenditures by Type of Service, United States, 2003–2004

Expenditure Components	2003	2004
TOTAL HEALTH EXPENDITURES	100.0%	100.0%
Hospital Services	33.7	33.5
Physician Services	23.5	23.5
Other Professional Services	8.2	8.1
Prescription Drugs	12.2	12.7
Nursing Home Care	7.3	7.0
Home Health Care and Other Services	7.1	7.1
Administration and Net Cost of Insurance	8.1	8.0

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see mhcc.maryland.gov/health_care_expenditures/she04/technicalnotes.pdf.

Table 14: Total Expenditures and Percent of Total Expenditures by Source of Payment, United States, 2004 (\$ millions)

Expenditure Components	2004	PERCENT OF TOTAL
TOTAL HEALTH EXPENDITURES	\$1,578,019	100.0%
Medicare	304,418	19.3
Medicaid	289,840	18.4
Other Government	122,879	7.8
Private Coverage	646,853	41.0
Out-of-Pocket	214,029	13.6

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see mhcc.maryland.gov/health_care_expenditures/she04/technicalnotes.pdf.



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